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Washington Business Forum

Max S. Baucus

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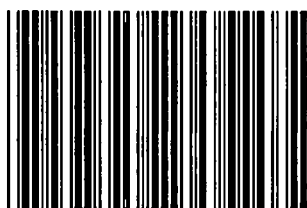
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BAUCUS

Statement of Chairman Max Baucus

Washington Business Forum

January 23, 2008

In honor of the Major League contingent here tonight, let me start out with an anecdote from Baseball's most quotable catcher.

During a rough patch in the 1957 season, New York Yankee Yogi Berra shot back to a reporter, "Slump? I ain't in no slump. I just ain't hitting."

Today we face similar debate about the economy. Some economists say we've already veered into recession. Others say we haven't yet. And some say we won't at all. But nearly all the experts will acknowledge that the US economy is missing a lot more than it is hitting right now.

The economy is weak. The housing sector is in a slump. And a larger credit crunch looms on the horizon.

Retail sales dropped in December. In the latest report, the unemployment rate jumped from 4.7 to 5.0 percent. Some states are already in a recession. And consumer expectations for a better economy are at a 16-year low.

The Federal Reserve Board appears to believe that the economy is weak enough to need monetary stimulus. The Fed has already lowered its target for interest rates by a total of one full percentage point.

Last week, the Chairman of the Federal Reserve Board said that the Fed would [quote] “stand ready to take substantive additional action as needed to support growth and to provide adequate insurance against downside risks.”

But will monetary stimulus be enough? There are reasons to believe that it might not. There are reasons why Congress might do well to provide fiscal stimulus.

For one thing, the glut of houses on the market right now might prevent lower interest rates from having their usual punch. For another, skittish lenders who have suffered losses as a result of the sub-prime mortgage crisis may remain reluctant to make loans, no matter how low interest rates go.

Fiscal policy — if enacted quickly — can work faster than monetary policy. And we need to consider that the economy may be weak enough that we may need fiscal stimulus to augment monetary stimulus.

If fiscal stimulus is needed, what kind of fiscal stimulus should we enact? A consensus is growing that it must be three things: timely, targeted, and temporary.

Stimulus occurs when households and businesses spend any additional income that they receive, rather than save it. To get households and businesses to spend more money, the Government can do two things: cut taxes or increase spending.

Fiscal stimulus must be timely. That means that once enacted, the stimulus must take effect quickly. It needs to be out the door quickly so that the intended recipient can spend it quickly. Spending in 2011 will not avert a recession in 2008.

Fiscal stimulus should be well-targeted. Stimulus should be targeted on those who most need the help. And stimulus should be targeted on those who will spend the money quickest.

Lower- and middle-income households are the ones most likely to need additional income during a recession. And because the financial resources of these households are more limited, they are also the ones who will be likely to spend the money quickly.

And fiscal stimulus must be temporary. If fiscal stimulus extends beyond the end of the recession, it could overheat an expanding economy, causing inflation. Moreover, permanent fiscal stimulus would increase Federal budget deficits.

In assembling a stimulus package, I will follow two principals.

First, politics should be left at the door.

This is an election year. There will be temptation on both sides to make political hay. But the stakes are too high for partisan warfare.

During the 1982 recession— unemployment jumped as high as 10 percent.

And more than 1 million Americans lost their jobs during the 1991 recession –a mild recession by historical standards.

We need to work together –Congress and the President – to avoid the economic woes caused by recession.

Two, we need to listen to the best experts available – regardless of political stripe – on how to fashion an effective stimulus plan.

This week I am holding two hearings on the state of the economy and stimulus legislation.

Yesterday, we heard from Congressional Budget Office Director Peter Orzsag. Director Orzsag testified that regardless of whether we headed to recession, current economic weakness could be aided by timely fiscal stimulus.

Tomorrow, we'll hear from Martin Feldstein, who was President Reagan's top economist, and Jason Furman who served as an economic policy aide in the Clinton White House.

Beyond stimulus legislation, I also look forward to holding in depth hearings on America's biggest challenges.

Fixing our healthcare system. Developing alternative sources of energy. And making education more affordable, so that Americans are prepared for a more competitive world.

I want to leave the next president – Republican or Democrat -- with solid foundation to make progress on these issues.

In the long run, I am optimistic about America's future. We are innovators. Americans have rebounded time and again.

But we'll need to work together, draw from America's strengths, and focus on the right priorities.